

**USAID/Croatia**  
**Operational Plan**

**FY 2006**

June 13, 2006

## **Please Note:**

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**Program Performance Summary FY 2005:** The opening of accession negotiations with the European Union (EU) in October 2005 opened a new chapter in Croatia's history. The negotiations present both challenges and opportunities for economic and democratic reform in Croatia. The Government of Croatia (GoC) has committed itself to enacting and implementing reforms in business regulation, the judiciary, ethnic minority rights, and political process. Moreover, the prospect of EU accession provides an opportunity for new alliances to improve the business climate and Croatia's competitiveness in open markets and increases stability in the region. USAID is well-positioned to promote constructive policy and regulatory reforms.

#### Economic Growth

USAID's priorities for economic growth in Croatia include: supporting an innovative and dynamic small and medium enterprise (SME) sector that is producing goods and services competitive in open markets; creating new jobs; and spurring private sector growth. The implications of EU membership affect USAID's Economic Growth initiatives in a number of ways. The demand for enterprise development training and technical assistance has increased as firms attempt to improve their competitiveness in global markets. A similar surge in demand for quality standard certification for export products has already been experienced and should intensify in 2006. USAID/Croatia will increase assistance in both areas to accommodate heightened demand.

USAID's economic development program is comprised of five components: Increased Agricultural Productivity; Increased Private Sector Growth; Strengthened Financial Sector Contribution to Economic Growth; Expanded and Improved Access to Economic and Social Infrastructure; and Improved Economic Policy and Governance. All are focused on establishing the conditions to generate investment and private sector employment. In FY 2005, USAID directly assisted farmers, producer organizations, processors and other market actors to raise the competitiveness of the Croatian agricultural sector in order to compete in national and open markets. Croatian businesses, especially SMEs, received assistance to acquire skills, financing, and services to improve their product quality and broaden their markets. USAID provided technical assistance and training to the GoC to strengthen its independent energy regulatory authorities and assist the national electrical utility with its restructuring and modernization efforts. USAID provided expert assistance to the Central Bank of Croatia and other regulatory institutions that enabled them to meet stringent EU accession requirements.

USAID's economic development program produced many positive results in FY 2005. The private sector's share of employment increased to 63%, a 2% increase over 2004. The annual total buyoff (total value of sales of domestic agricultural products) achieved 97% of target. The number of jobs created among assisted SMEs far surpassed the target with 2,869 jobs created. Finally, investment promotion initiatives yielded exceptional results, with \$51.6M in new Foreign Direct Investment (FDI) and a draft national investment promotion strategy.

#### Democracy and Governance

FY 2005 was a productive year for democratic reforms and processes. National and local elections were successfully held, once again ably monitored by NGOs. On the legislative front, the Government of Croatia (GoC) adopted a national corruption prevention program and a new law decentralizing more functions to local governments. In March 2005, Parliament adopted amendments on the law to local elections, extending voting rights to all Croatian citizens, regardless of residency. With USAID assistance, amendments to the law on local government were drafted. Also, a draft law for the direct election of mayors and county prefects entered into parliamentary procedures and will be passed in FY 2006.

Civil society organizations have shifted from a primarily human rights focus to a much broader set of issues such as corruption, electoral process, rule of law, minority rights, and environmental protection. Local governments created new relationships with non-governmental organizations (NGOs). Several signed charters on NGO-government cooperation. The business sector is also becoming more active implementing corporate social responsibility programs, and in supporting NGOs active in social services, culture, sports, and youth education. The National Foundation for Civil Society Development, a national support organization for NGOs, improved its grant-making capacity, providing funds to many NGOs.

Key challenges remain decentralization legislation and policies to support local governments, and improving the environment for NGOs. Another challenge is improving the efficiency of two institutions critical for NGO-government cooperation - the National Council for Civil Society Development, an advisory body to the government, and the Government Office for Cooperation with NGOs. Effective functioning of these two leading bodies and their closer partnerships with NGOs should improve NGO-government cooperation and raise the role of Croatian NGOs within the EU accession process. Finally, as in many transition countries, an additional challenge facing NGOs is financial sustainability caused by decreased foreign funding and insufficient local funding bases.

USAID's democracy program is focused on assisting Croatia reform policy and legislation to improve the environment for NGO development and for fiscal and administrative decentralization to local governments. It supports institutions to ensure that Croatia will have enduring advocates for decentralized, transparent, and participatory local government. To increase local government capacity to manage resources, it guides local governments through an asset inventory and management model. Through e-government, the Local Government Reform Program (LGRP) improves a local government's overall internal efficiency and makes its operations more transparent and accessible to citizens. The USG will work with the EU to introduce an accession-compatible local government procurement model to provide local governments with guidance, best practices, and training required to carry out competitive, transparent and cost-effective procurement. To support civil society development, activities will provide advocacy skills to NGOs, helping them partner with government to promote policy reforms in areas such as corruption, legislative oversight, ethnic minority rights, local government, corporate governance and entrepreneurship. Another key priority is improving the legal framework that will support NGO development.

In FY 2005, performance targets in the local governance sector were exceeded. LGRP expanded the number of local governments using modern public administration practices to 250. Additionally, assisted local governments awarded over 111 contracts and grants, thereby improving municipal services and reducing costs through outsourcing. In support of civil society strengthening, 40 additional CSOs were awarded grants, mobilizing citizens in vulnerable areas to participate in community development projects. One unmet target was Croatia's rating on the NGO Sustainability Index-Legal Framework, which declined slightly from 3.2 to 3.5. Lack of progress on legislative change, the laws on foundations and volunteerism, and the code of good practices for government grant-making contributed to Croatia's decline on the index.

**FY 2006 Program****SO: 160-0130 Growth of a Dynamic and Competitive Private Sector****Improve Private Sector Competitiveness**

Improve Private Sector Competitiveness (\$4,656,339 AEEB, \$412,000 AEEB carryover, \$1,672,272 AEEB prior year recoveries). USAID's SME development activity will accelerate job creation through strategic investments that increase business sales and exports. These objectives will be achieved through technical assistance to business associations and business clusters that help them improve enterprise efficiency, reduce costs, and improve market access. USAID is also increasing SME access to finance by working with lending institutions to create new financing products and improving and simplifying the loan application process, the result of which is expected to be the creation of 4,000 new jobs in FY 2006. The program includes policy advice to the Croatian Government which encourages economic reforms that create an improved environment for SME development. The program will also support a national investment promotion strategy that integrates regional economic development agencies and other local initiatives. USAID assistance to promote foreign direct investment will be particularly relevant as prospects for EU accession lead to greater awareness of and interest in Croatia as an investment destination. Principal contractor: Development Alternatives Inc., Nathan Associates Joint Venture (prime).

**Increase Agricultural Sector Productivity**

Increase Agricultural Sector Productivity (\$2,384,661 AEEB). USAID's agricultural assistance is making Croatia's food products more competitive by reducing production costs and strengthening market linkages. In FY 2006 the program will reduce farm-to-market transaction costs and on-farm production costs. Further program expansion among commercial farmers and producer organizations in FY 2006 will expand markets and improve prices for both Croatian farmers and food processors. In addition, more emphasis will be placed on increasing the commercial viability of subsistence farmers located in economically distressed areas including Croatia's war-affected regions. As a result of this effort USAID expects that at least 450 subsistence farmers in these areas will become sustainable commercial farmers. Principal contractor: Development Alternatives Inc. (prime).

**FY 2006 Program****SO: 160-0210 More Effective Citizen Participation and Improved Governance****Strengthen Civil Society**

Strengthen Civil Society (\$1,837,000 AEEB, \$480,000 AEEB carryover). USAID's program that works with non-governmental organizations (NGO), CroNGO, will focus on the three most challenging areas for NGO development in Croatia: improving the legal environment; advocacy and NGO financial viability, through training, technical assistance; and NGO capacity-building grants. During FY 2006, CroNGO will work with NGOs to advocate at the national level for enactment of a legal framework that will foster development of philanthropy, volunteerism, and transparent grant-making. Specific laws targeted are those on foundations and volunteerism, and a code of good practices for government grant-making. CroNGO will continue to strengthen public advocacy organizations working in the areas of anti-corruption, legislative oversight, ethnic minority rights, corporate governance, corporate social responsibility, and entrepreneurship. The program will also advance NGO income-generation capabilities to increase financial sustainability. Principal grantee: Academy for Educational Development (prime).

**Support Democratic Local Government & Decentralization**

Support Democratic Local Government & Decentralization (\$3,199,000 AEEB). USAID's Local Government Reform Program (LGRP) targets legislative and policy change for fiscal and administrative decentralization. It provides assistance to 250 city and municipal governments. In its final year of

funding, the LGRP will expand asset management, e-government, procurement, investment project packaging, local government consultants, and advocacy for legislative change. The project will enable local governments to register \$1.5 billion assets capable of generating at least \$7.5 million in revenues to local government coffers. Fifty local governments will introduce new e-government systems that offer increased transparency and that will also respond to the needs of businesses planning local investments. A new government-wide procurement system conforming to European Union (EU) standards will be developed in cooperation with the Croatian procurement office and the EU. To help build the capacity of local governments, small infrastructure projects will be initiated in cooperation with the EU and the Croatian Ministry of Sea, Tourism and Communications. The Association of Local Government Consultants will enable local government to outsource government work, improve expertise and implement cost-containment measures. Public administration certificate courses will be instituted in at least three higher learning institutions and offered by other training providers. Advocacy for the local government sector will be strengthened through the development of a network comprised of parliamentarians, mayors and other local government officials, media, and scholars. The network will raise awareness on crucial local government issues including decentralization legislation, and will assist the central government to address these issues. Principal contractor: Urban Institute (prime).

#### **FY 2006 Program**

#### **SO: 160-0420 Cross-Cutting Programs**

#### **Program Support**

Program Support (\$1,610,000 AEEB, \$50,480 AEEB carryover, \$996,000 AEEB prior year recoveries). The 2006 program has three aims. First, it will continue to place high priority on training and institutional development. Specifically USAID will train nearly 500 people in key areas such as local government administration, and will provide small training-related grants and technical assistance. Secondly, training will place added importance on strengthening institutions that are critical to preserve a market-oriented democracy after completion of USAID programs. Finally, USAID will measure performance and evaluate assistance programs. Principal grantee: World Learning (prime).

## **Results Framework**

### **160-0130 Growth of a Dynamic and Competitive Private Sector**

**Program Title: Growth of a Dynamic & Competitive Private Sector**

1.3.2: Strengthened capacity of SMEs to operate and compete

1.3.2.2: Strengthened business associations

1.3.2.3: Increased utilization of domestic agribusiness product

1.3.3: Increased employment and growth in lesser developed areas

### **160-0210 More Effective Citizen Participation and Improved Governance**

**Program Title: Citizen Participation & Improved Governance**

2.1.1.1: Community based civic action programs expanded/implemented

2.1.1.2: Improved sustainability of the NGO sector

2.1.1.3: Improved advocacy and protection for selected vulnerable groups

2.1.2.1: Local government capacity to manage resources improved

2.1.2.2: Partner local governments award 300 contracts and grants

### **160-0420 Cross-Cutting Programs**

**Program Title: Cross-Cutting Programs**